

MEMORANDUM



TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

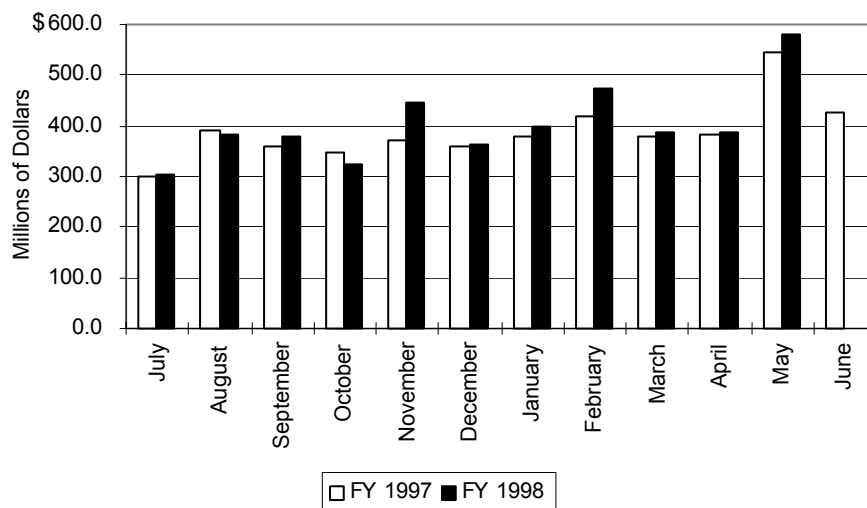
FROM: Dennis C. Prouty

DATE: June 1, 1998

General Fund Receipts Through May 31, 1998

The attached spreadsheet represents total FY 1998 General Fund receipts, with comparable figures for FY 1997. These can be compared to the latest FY 1998 estimate (\$4.846 billion) set by the Revenue Estimating Conference (REC) on April 10, 1998. The estimate represents an increase of \$197.6 million (4.3%) compared to FY 1997. The current FY 1998 REC estimate includes the two major tax reduction bills passed during the 1997 Legislative Session; the 10.0% income tax reduction (HF 388) and the inheritance tax reduction (SF 35) as well as all bills passed during the 1997 Legislative Session.

Monthly General Fund Receipts - FY 1997 v. FY 1998

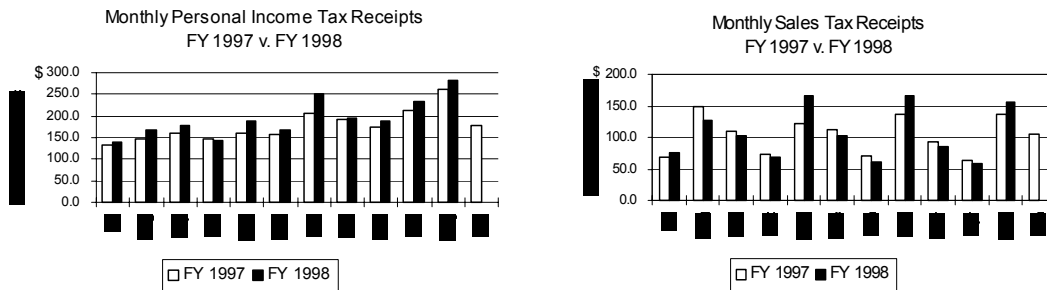


May 1998 Compared to May 1997

Total General Fund receipts collected in May were 6.3% higher compared to May 1997. Special tax receipts showed an increase of 7.5%. Personal income tax receipts increased 9.0%. Sales tax receipts increased 14.8%. Use tax receipts increased 1.2%, and corporate income tax receipts were 10.8% lower than May 1997.

FY 1998 Compared to FY 1997

Year-to-date revenue growth increased by \$209.8 million (5.0%) compared to FY 1997. This is above the current REC estimate of 4.3% for FY 1998. Lower than expected year-to-date revenue growth for corporate income tax has been offset by strong year-to-date growth in personal income tax.



Gross personal income tax revenues received in May were \$23.6 million (9.0%) higher than May 1997. Year-to-date receipts continue to be strong, with an increase of 9.5% compared to the FY 1997 amount. The primary cause of growth in personal income tax receipts is withholding payments, which are \$89.8 million (6.1%) greater than FY 1997. Although year-to-date withholding payments continue to exhibit strong growth, the effect of the 10.0% income tax cut has begun to be seen in withholding tax receipts. The May growth rate was moderate, with withholding payments increasing by 2.8% compared to May 1997. It is expected that withholding receipt growth will be moderate throughout the remainder of the year.

Estimate payments showed strong dollar growth in May, posting a gain of \$1.6 million (7.5%) compared to May 1997. Year-to-date growth in estimate payments stands at \$60.5 million (24.8%), primarily due to exceptionally strong January growth of \$41.8 million (57.2%). Gains in estimate payments can be attributed to both the strong year in the stock market and the federal capital gains tax rate change. The majority of growth in estimate payments was included in the April REC estimate.

Return payments showed continued strong growth in May, posting a gain of \$17.5 million (21.1%) compared to May 1997. The strong April and May performance has erased the year-to-date negative growth experienced through February. Year-to-date return payments are \$35.3 million (15.2%) above the FY 1997 amount.

The REC FY 1998 income tax estimate of \$2.295 billion represents a projected increase of 8.1% compared to FY 1997. As stated earlier, this includes the 10.0% income tax reduction.

Sales tax receipts in May increased above last year's level by \$20.1 million (14.8%). Approximately \$13.8 million of the gain is due to the change in the method of local option tax payments. As directed by HF 729 (Local Option Taxes Administration Act), the Department of Revenue and Finance began making monthly rather than quarterly distributions. Overall receipt growth is expected to fall somewhat during the last week in June as the monthly distribution payment date is made. Total year-to-date receipts are \$38.4 million (3.4%) above last year's level. The current REC estimate for FY 1998 sales tax receipts is \$1.275 billion, which represents an increase of 3.0% compared to FY 1997.

Corporate income tax receipts in May were \$4.7 million (10.8%) lower than May 1997. On a dollar basis, estimate payments were the primary cause of negative growth for the month. Estimate payments received in May were \$3.4 million (8.7%) less than May 1997, erasing the growth experienced in March. With the weak May growth, year-to-date corporate income tax receipts are \$26.9 million (10.0%) lower than FY 1997.

The April REC projected FY 1998 corporate income tax receipts would total \$295.0 million, a decrease of \$23.8 million (7.5%) compared to FY 1997.

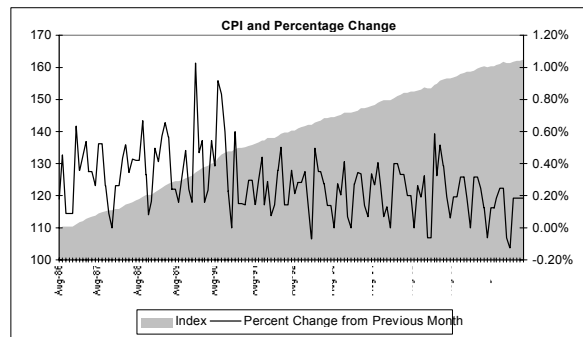
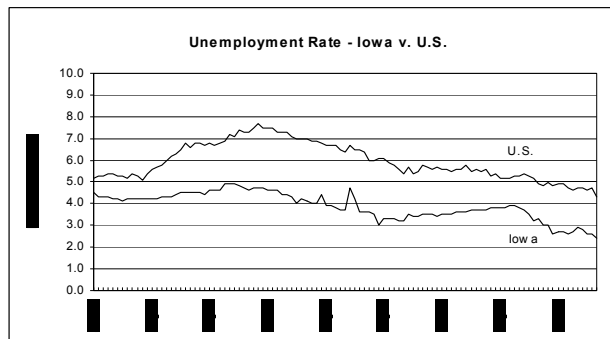
Racing and gaming receipts reached their statutory cap of \$60.0 million in January 1998. All racing and gaming receipts in excess of \$60.0 million are deposited in the Rebuild Iowa Infrastructure Fund. As a result, activity in these accounts has little direct impact on the General Fund because the receipts have exceeded the \$60.0 million threshold. The April REC estimated that \$79.9 million from this source would be deposited to the Infrastructure Account in FY 1998.

Institutional payments in May were \$3.0 million (30.0%) lower than May 1997. The loss is primarily attributable to the change enacted in HF 715 (Human Services Appropriations Act) that prevents institutional reimbursements at the Glenwood State Hospital-School from being deposited into the General Fund. However, there is a corresponding reduction in appropriations as well from this provision.

Status of the Economy

The seasonally adjusted percent unemployed for the State fell from the 2.6% rate in March to 2.4% in April. The unemployment rate a year ago was 3.3%. Iowa's total April employment registered 1,544,300, down from March's level of 1,547,100. The number of unemployed persons in Iowa stood at 38,100 in April, which is a record low and down from the March level of 41,500. The U.S. unemployment rate decreased in April to 4.3% from March's level of 4.7%.

Consumer prices in April increased 0.2%. The Consumer Price Index (CPI-U) through April 1998 was 162.5 (1983=100), which is 1.4% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through April 1998.



Information related to State General Fund receipts is available electronically through the Fiscal Bureau's Electronic Publishing of Information System (EPI). If you have questions regarding this service, you may contact Glen Dickinson (515-281-4616) or Larry Sigel (515-281-4611).

GENERAL FUND RECEIPTS - FY 1998 vs. FY 1997					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1997, through May 31, 1998, in millions of dollars					FY 97 Actual Compared to FY 98 REC Estimate			
	FY 1997	FY 1998	Year to Date % CHANGE	May % CHANGE	Actual FY 1997	Estimate FY 1998	% CHANGE	
Personal Income Tax	\$ 1,946.9	2,132.5	9.5%	9.0%	\$ 2,123.1	\$ 2,294.9	8.1%	
Sales Tax	1,132.8	1,171.2	3.4%	14.8%	1,237.4	1,275.0	3.0%	
Use Tax	211.3	229.7	8.7%	1.2%	223.1	245.0	9.8%	
Corporate Income Tax	269.9	243.0	-10.0%	-10.8%	318.8	295.0	-7.5%	
Inheritance Tax	99.4	102.7	3.3%	-19.5%	109.3	107.2	-2.0%	
Insurance Premium Tax	79.0	80.1	1.4%	-2.4%	106.0	110.0	3.8%	
Cigarette Tax	85.3	84.3	-1.2%	-2.7%	94.6	97.0	2.6%	
Tobacco Tax	5.2	5.6	7.7%	20.0%	5.7	6.2	8.6%	
Beer Tax	11.3	11.5	1.8%	10.0%	12.5	12.5	0.2%	
Franchise Tax	31.9	31.7	-0.6%	-34.7%	35.6	37.6	5.5%	
Miscellaneous Tax	1.8	5.3	194.4%	-1166.7%	1.2	1.3	9.1%	
Total Special Taxes	\$ 3,874.8	\$ 4,097.6	5.7%	7.5%	\$ 4,267.3	\$ 4,481.7	5.0%	
Institutional Payments	95.4	62.9	-34.1%	-30.0%	104.3	71.4	-31.5%	
Liquor Transfers:								
Profits	26.0	26.0	0.0%	0.0%	28.8	30.0	4.2%	
7% Gross Revenue	8.3	8.3	0.0%	0.0%	9.0	9.0	0.0%	
Interest	15.8	26.8	69.6%	10.0%	18.0	27.5	53.1%	
Fees	56.8	57.1	0.5%	36.8%	63.6	65.5	3.0%	
Judicial Revenue	37.9	39.9	5.3%	6.0%	42.9	43.9	2.2%	
Miscellaneous Receipts	48.6	54.8	12.8%	-64.6%	54.0	56.5	4.7%	
Racing and Gaming Receipts	60.0	60.0	0.0%	n/m	60.0	60.0	0.0%	
TOTAL RECEIPTS	\$ 4,223.6	\$ 4,433.4	5.0%	6.3%	\$ 4,647.9	\$ 4,845.5	4.3%	